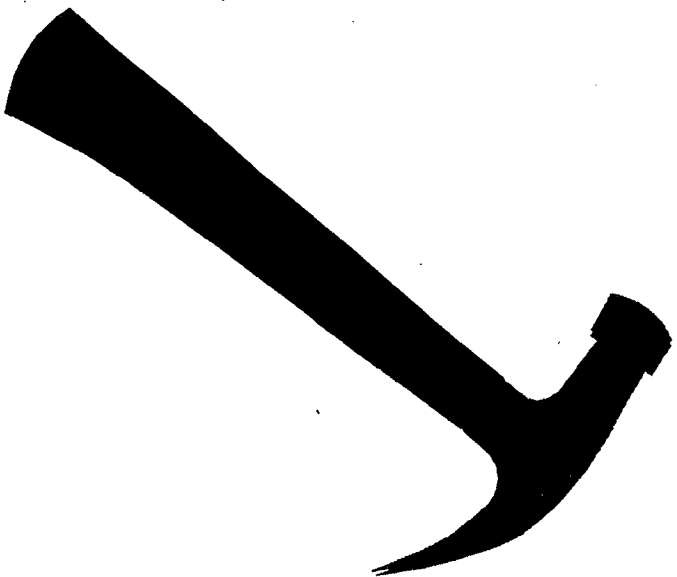


This presentation was given/handed out at the BDC
Finance work group meeting on Sept. 2, 1998.

Nailing Down the Financial Principles



Points of Contention--Finance

- “Baseline Issue”
- User funding for ERP and other common programs
 - Crediting for other parallel efforts
- Storage
 - Public funding
 - Funding for the Ecosystem portion

Goal

- Come to terms with these disagreements and move on to solving the problems in the Delta



The Baseline Issue

- Issue: Should CALFED seek reparations from water users for ecosystem restoration?
 - Yes: It is necessary to establish a baseline to level the playing field. We need to make up for past public subsidies to water projects detrimental to the ecosystem before we can discuss funding for the CALFED program.
 - No: Determining a new baseline is too difficult and destructive to the process of fixing the Delta.

CALFED Straw Proposal

- We reject the idea of seeking retribution for past actions
 - It is not possible to accurately apportion blame for the degradation of the Delta on any particular user or group
 - It is destructive to the process of working together to find a solution to the problem

User Funding for the ERP

- Issue: Should user fees help fund the ERP?
 - Yes: A reliable source of funding other than public dollars will be necessary for the future. Also, it is important for users to realize the full costs of water use, including ecosystem impacts.
 - No: The users are willing to pay their fair share of the program, but the public largely benefits from ecosystem restoration, so the public should pay for it.

CALFED Straw Proposal

- Broad-based user fees will be collected and used to help fund the ERP and the other common programs
 - A reliable source of funding is needed for the future success of the program. This is one way to insure future funding.
 - For the ERP, there is an underlying need for users to pay the full cost of water. This will force users to take ecosystem impacts into account when making future decisions about water use.

Possible Types of User Fees

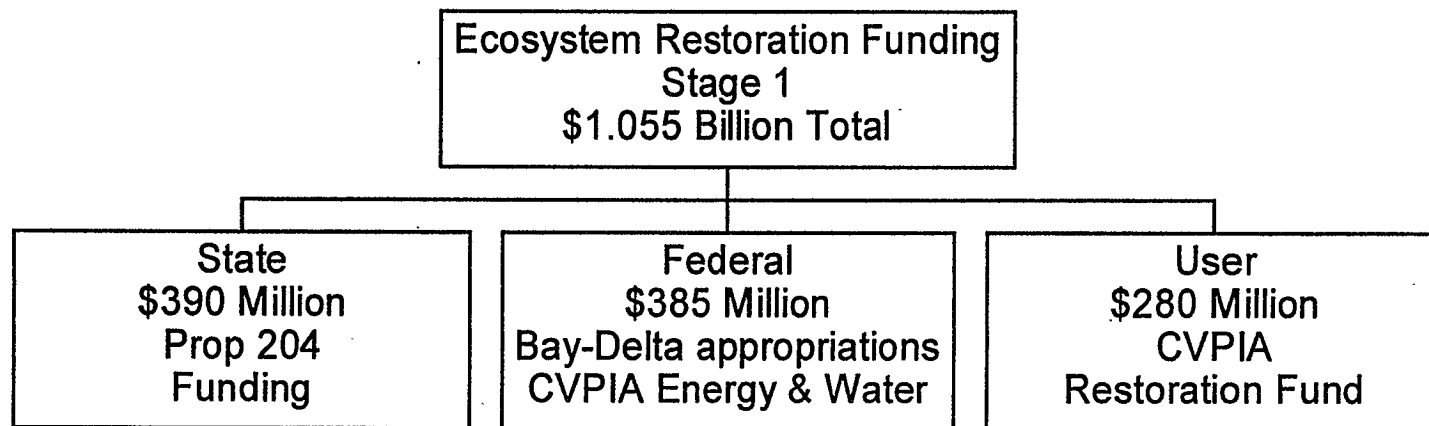
- A broad-based charge on all water users in the Bay-Delta system
- End-user revenues from Salmon Stamps
- A surcharge on non-registered applicators of pesticides (i.e., home owners)
- Boat Launch fees

User Fees for ERP/Common Programs: Timing Options

- 1) Spend all funding we have now in Stage 1
 - defer discussion of user fees for the future
- 2) Create a User Fee as an insurance policy
- 3) Develop a User Fee now for future use
- 4) Develop and implement a User Fee now

Ecosystem Restoration Funding

Fed/State/User Investment



Stage 1 ERP Actions/Benefits

- Restore Delta habitat (~25,000 acres)
 - Yolo Bypass
 - Mokelumne
 - San Joaquin
- Pilot projects: inform Stage 2 decisions
- Develop an ecosystem water market
- Establish partnerships with Universities for focused research
- Fish Screens
- Gravel management
- Acquire flood plain easements along San Joaquin River

CALFED Straw Proposal

- Option 3: Develop User Fees now for future use
- This would:
 - Reflect ecosystem impacts in the price of water
 - Provide a stable source of revenue for the future funding and success of the ERP
 - Help users realize the full cost of activities that are detrimental to the ecosystem

Crediting

- Issue: Should users get credit for money or water already given up for the ecosystem?
- CALFED Straw Proposal:
 - Credit will be given for other parallel efforts, such as Category III funds.

Public Funding for Storage

- Issue: Should some public funding be used for new storage?
 - Yes: The public will also benefit from new supplies of high quality water, so they should help fund it.
 - No: If you use a benefits-based approach, then the beneficiaries of the new water, not the public, should pay for any new storage facilities.

CALFED Straw Proposal

- Public funding is appropriate for the planning process.
 - This does not include design costs. Any public funds spent on design will be reimbursed, including interest, by users of those facilities.
- Construction costs, including interest, will be paid for by users.

Water Releases from Storage for the ERP

- Issue: If some water is released from storage for environmental purposes, who should pay for it?
 - The public: If the ecosystem benefits from this water, then the public should fund it.
 - Users: Any water released from storage for the ERP should be considered mitigation for years of damages caused by past dams and water projects that were publicly subsidized.

CALFED Straw Proposal

- Some portion of new storage will be dedicated for environmental use
- The ecosystem share is deemed to be mitigation for ongoing impacts of system-wide diversions and impacts, and will be funded by user fees

Summary

- The Baseline Issue
 - Damages for past acts will not be collected
- Broad-based user fees will be used to help fund the ERP and other common programs
 - Credit will be given for parallel efforts
- Users must pay the full cost of new storage including interest.
 - Public funding will be used for planning only
 - Public funds spent on design will be reimbursed
 - Ecosystem portion funded by user fees

Estimated CALFED Stage 1 Program and Capital Costs in Millions

Program Area	State	Federal	User	Total
Ecosystem Restoration	390	385	280	1,055
Conservation	125	0	675	800
Recycling	250	250	500	1,000
Watershed Management	125	125	20	270
Water Quality	85	85	80	250
Delta Levees	80	140	30	250
Storage	70	50	110	230
Conveyance	190	200	285	675
Total	1,315	1,235	1,980	4,530